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Business in Brief

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THE CHASE MANHATTAN BANK

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The economy has passed the $500 billion milestone. And prospects for a continued, though moderate, advance in the months ahead appear favorable. Thus, 1960 promises to be a record year for business, though perhaps not the boom year that had been anticipated in some quarters.

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The business news in January and February raised questions about the outlook for the year:

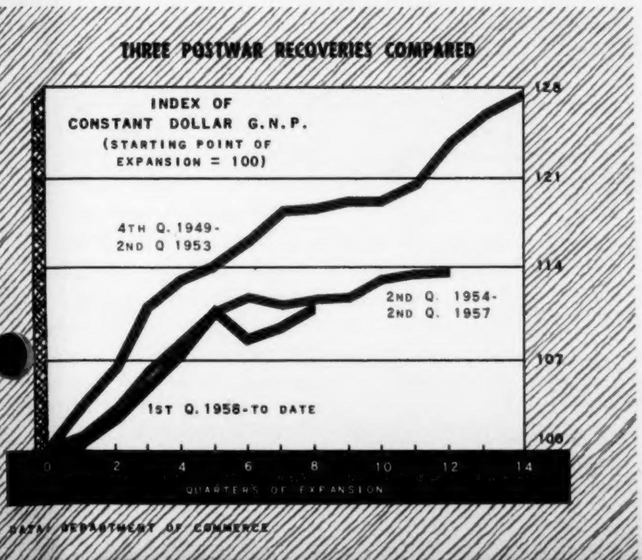
¶ Inventory building ran at an estimated annual rate of $12 billion in December and January. Steel and auto inventories were being rebuilt more rapidly than had been anticipated.

¶ Retail sales of autos and other products did not measure up to earlier expectations.

¶ Common stock prices, as measured by the Standard and Poor's index, dropped 9% between the beginning of January and mid-March.

At the same time, industrial production reached new highs. Personal income continued to increase. And total economic activity rebounded from the steel strike —the extent of the recovery from the low point of the 1957-58 recession is comparable with the experience in 1954-55.

Thus, what had been expected to be a boom has turned out to be a period of normal expansion. And this expansion has taken place in an atmosphere of price stability.



To be sure, the rise in production has been supported by inventory accumulation at an annual rate that cannot long be sustained. In fact, auto stocks are close to the million-car figure, and production has been cut back from the very high level in January. Steel inventories could be in good shape before mid-year.

What other factors could offset the effects of a decline in the rate of inventory building? The two most important candidates are consumer expenditures and business investment in new plant and equipment.

The sluggishness in retail sales could be due in part to the after-effects of the steel strike and to adverse weather. With incomes high (6% above a year ago) and growing (an increase of 3½% in six months), a pickup in consumer purchases is possible. With consumer expenditures running at a rate of some $320 billion a year, even a moderate improvement would go far to make up for the decline on the inventory front.

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A major contribution to continued strength of demand should come from increased capital investment. The latest SEC-Commerce Department survey indicates that plant and equipment spending will reach its 1957 peak of $37¾ billion in the 3rd quarter of this year, up $ 4 billion from the 4th quarter 1959 level. And, as is typical in periods of rising capital expenditures, actual expenditures are likely to exceed planned expenditures.

In general, the incentive for growth in capital expenditures does not come from a lack of capacity. Rather, the incentive comes from the high returns available on newer and more efficient plant and equipment.

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How long will the growth in capital expenditures, and the advance in the economy last? The first postwar capital expenditure build-up lasted from 1945 to 1948 and saw capital expenditures increase by 154% from the 1945 level. The second and third periods ran from 1950 to 1953 and from early 1955 to late 1957, and saw capital expenditures rise by about 50%.

So far in the current recovery the growth in capital expenditures has been slow and has run for a year and a half. The rise from the low point has been less than 20%. Thus, on the basis of postwar experience, the current expansion could last well into 1961 and see substantial increases in capital expenditures.

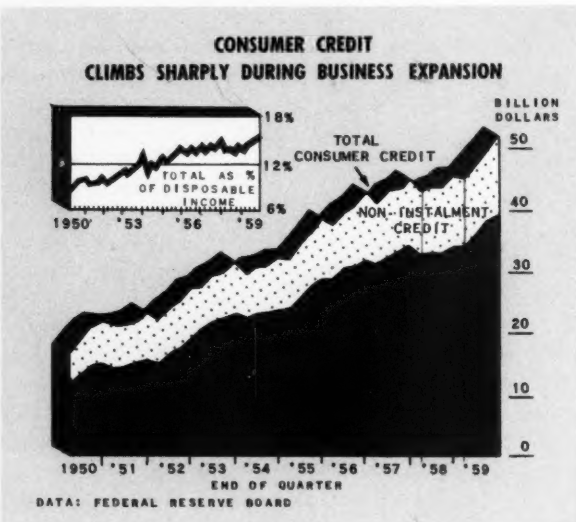
FOCUS ON CONSUMER CREDIT

In few areas have American businessmen displayed more ingenuity than in devising means for lending to consumers safely and conveniently. On the average, outstanding instalment debt has increased by nearly 10% per year over the past four decades, a record that ranks it among the oldest of our growth industries. About 60% of all spending units are borrowers, in contrast to 33% only ten years ago. And, in 1959, extensions of instalment credit amounted to over 16% of all consumer spending.

What are the implications of this rapid growth for the economy? Do fluctuations in credit extensions contribute to business instability? The record $6.5 billion expansion of consumer credit during 1959 has brought these issues to the fore once again.

Growth in Perspective

The rapid expansion in consumer financing in the twentieth century has been part and parcel of a sweeping change in the whole status of consumers. Rising standards of living, the trend towards suburbanization and



more widespread home ownership, and increased leisure time have all stimulated the demand for durable goods in general, and the automobile in particular. In effect, the average consumer has become something of a small scale capitalist, with his substantial investment in equipment yielding a continuing flow of services—transportation, recreation, and household help—formerly purchased piecemeal, if at all.

- Over the past 30 years, consumer spending for laundry service, local transit, domestic service, and motion pictures has increased only one-third as fast as total buying.
- Meanwhile, purchases of autos and appliances, radio and TV increased by nearly 350%—substantially faster than total consumption. It is these items, with relatively high unit costs, that are typically sold on credit.

Looked at broadly, the role of consumer credit in facilitating this shift towards durable goods parallels, in some respects, the function of credit extended businessmen. In both cases, the borrower, in anticipation of later income, is given command over resources beyond his current savings. And just as a growing business is most in need of credit, the most frequent instalment borrowers are younger families still in the process of acquiring the stock of equipment that has become a part of the modern home. Without access to credit on reasonable terms, many of those families would be forestalled from the market, and the whole evolution in production and consumption patterns characteristic of the past half century would have been appreciably slowed.

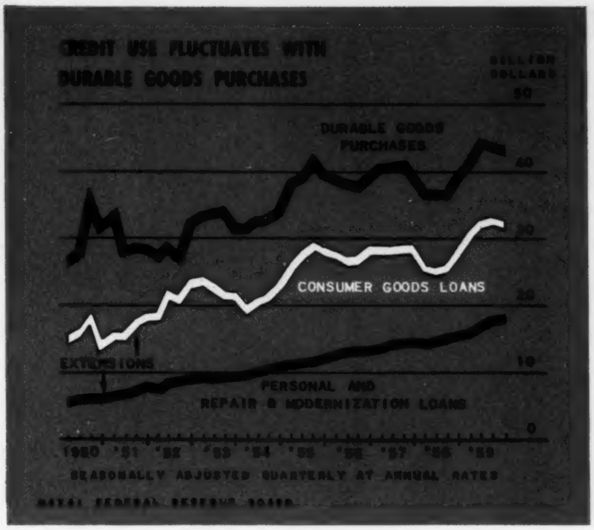
Consumer Credit and the Business Cycle

The rise in consumer credit has not been an entirely passive response to forces at work elsewhere in the economy. Shifting attitudes toward personal debt, a tendency over time to require smaller downpayments and to lengthen maturities, and new techniques for extending credit—now exemplified by the spread of "charge plans" and "check-credit" schemes—have all played a part. But whether the initial impetus has stemmed from the borrower or lender, net extensions of consumer credit clearly increase buying power and tend to stimulate business activity.

More important than the long-run growth, in this respect, are the short-run fluctuations over the course of a business cycle. Typically, consumer credit expands rapidly in periods of recovery and prosperity. For instance, during the prosperous periods of early 1952 to mid-1953, and again during 1955 and 1956, net extensions of instalment credit added roughly 2% to disposable incomes. Then, in the subsequent recessions of 1953-54 and 1957-58, the volume of credit was virtually unchanged.

Those swings reflect in good part the underlying instability of demand for durable goods. That instability is as characteristic of cash buyers as of those using credit. But by broadening the potential market, the availability of credit facilities can—and does—help to magnify the "bunching" of spending during periods of rising incomes and consumer confidence.

The price the economy pays for a rapid credit expansion during prosperous periods is a rising burden of repayments in subsequent months—in a real sense, consumers are forced to save a larger portion of their incomes. Potentially, that diversion of funds from the current spending stream may coincide with a general business decline, tending to reinforce other recessionary forces. But, except for periods of official regulation, the record shows that extensions of new credit have not fallen below repayments for an extended period since the early 1930's. Thus, sharp contractions in credit volume have not, in fact, seriously aggravated periods of



recession. Moreover, in a number of instances, consumer credit has turned higher well in advance of other business indicators, suggesting that the fresh injections of buying power via the credit mechanism have sometimes helped to shorten recessions and speed recovery.

Recent Experience

The spurt in instalment debt over the past year, when judged against the perspective of past trends and the over-all growth of the economy, has not been so rapid as to foreshadow a serious problem of adjustment in coming months. The stimulus to spending from net credit extensions—while a new record in dollar amount—has been significantly smaller, relative to disposable incomes, than during other comparable periods of business prosperity since World War II.

- In sharp contrast to developments during 1955, when a surge in consumer credit made possible an unsustainable level of auto sales, the expansion during 1959 did not appear to be accompanied by a general easing of terms by lenders. In the past, temporary stimulus from that direction has sometimes aggravated the basic instability in the buying of durable goods.

- Repayments have remained close to 13% of disposable incomes for three years; the ratio is still below the 1957 peak. Thus, the recent rise in outstanding debt has not mortgaged future incomes to an extent that spending will need to be sharply curtailed.

- The rise in consumer debt has been accompanied by a much larger increase in individuals' liquid assets. In fact, taken together, holdings of deposits, savings and loan shares, and Government securities rose in 1959 by more than ever before during a peacetime year, despite some decline in the rate of total savings.

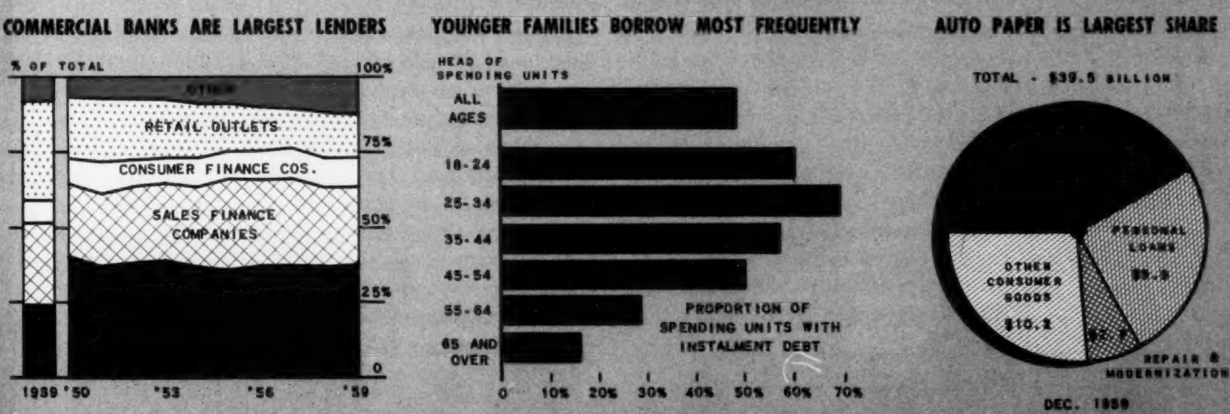
Against this background, there is little reason to believe that consumers have overextended themselves, with adverse implications for the demand for durables in 1961. Moreover, while the rise in consumer credit has itself helped to tighten the money markets over the past year, funds should remain in ample supply to support sustainable levels of demand.

Conclusion

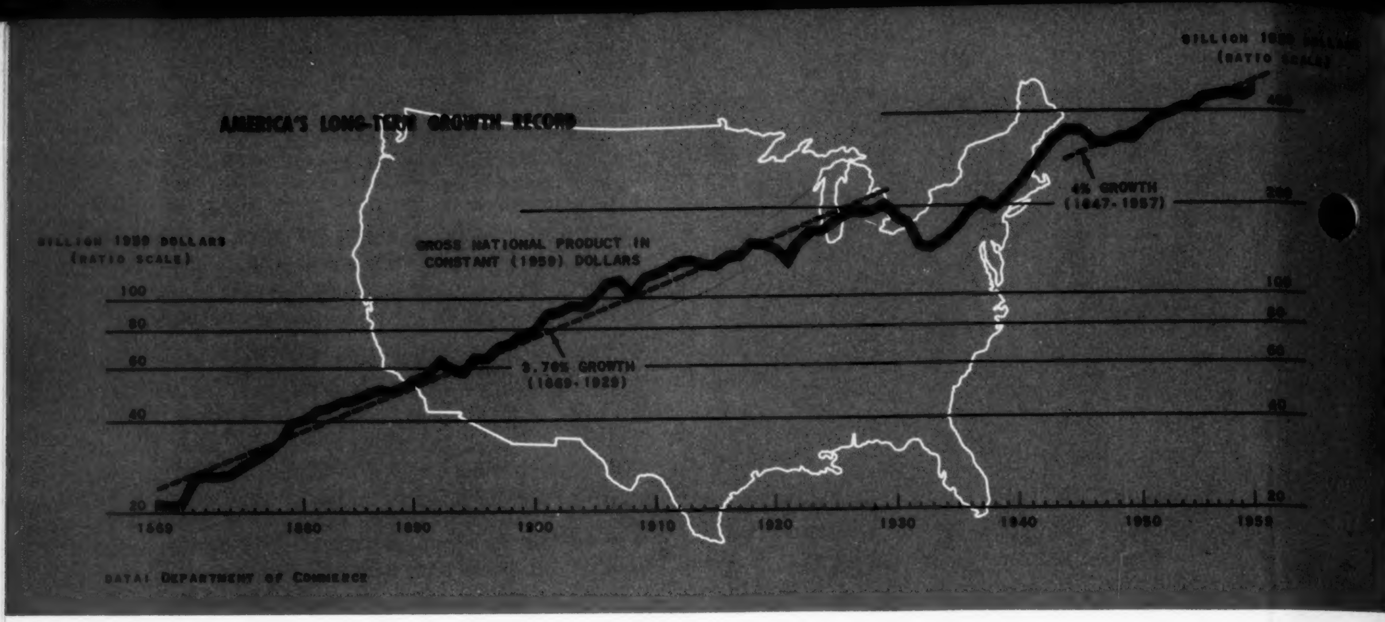
While the pace in credit expansion in 1959 was not so rapid as to suggest a sharp reaction is in store over coming months, it is clear that consumers cannot indefinitely increase their indebtedness at a more rapid rate than their incomes. One danger is that in the future, as in the past, a downturn in credit volume might coincide with other recessionary forces.

This problem of cyclical instability is not unique to instalment credit, but it does complicate the problem of general credit control. So long as swings in consumer credit are held within past limits, these complications do not appear to be too great a price to pay for a free and dynamic consumer economy. However, if serious excesses are to be avoided, the responsibility lies not only with the monetary authorities, but even more with the practices of lenders and borrowers.

CHARACTERISTICS OF INSTALMENT CREDIT



DATA: FEDERAL RESERVE BOARD



MEASURING ECONOMIC GROWTH

The U.S. economy has grown at a phenomenal rate for more than a century. Measured in constant 1959 prices:

- Gross national product has multiplied almost 80 times, from an estimated $6.2 billion in 1838 to $480 billion in 1959.

- The average annual growth rate for this entire period was 3.7%, a doubling of total output every 19 years.

This 3.7% per annum long-term growth rate is higher than the 3% figure which is generally accepted as the nation's past growth rate. It is derived from new statistical materials which cover a longer period than earlier estimates and which show that previous statistics had underestimated growth.

Growth Defined

Economic growth is an increase in a nation's ability to produce goods, services and leisure. In America economic growth is not an end in itself. Economic growth derives its value only to the extent that it contributes to the broader objective of enhancing individual dignity and providing greater opportunities for individual development. As such, it is an intermediate objective. It provides a material basis for advances in education, medicine, the creative arts, individual freedom, and the moral standards governing individual conduct.

But, as history amply demonstrates, growing wealth is no guarantee of progress toward these broader objectives. It can provide the opportunity—but how to use growing wealth constructively is one of the major challenges facing America.

Measurement Problems

Measuring our rate of economic advance poses formidable technical problems. Many of the goods and services used today were not in existence 20 or 50 years ago. The general price level has about tripled in 50 years. And the economy has been subject to the ups and downs of the business cycle so that the period over which growth is measured is important.

The conventional procedure used in measuring economic growth involves several steps. The first is to estimate the value of gross national product in any given year in the prices prevailing in that year. The further back in time one goes, the less reliable the estimates are. However, notable progress has been made in recent years in using data available from censuses and other sources in improving estimates of GNP for past periods.

A second step is to convert the estimate of each year's GNP into constant dollars by the use of price indexes. For instance, if the price index for residential building almost triples as it did between 1929 and 1959, then the current dollar figure for homebuilding in 1929 would be almost tripled to place it in 1959 prices. Following through this procedure on all categories of goods and services, the estimate of $104.4 billion for 1929 GNP in 1929 prices becomes $204.8 billion in 1959 prices.

This procedure raises difficult technical questions and is subject to all the inadequacies of price indexes. Price indexes do not, and probably cannot, make adequate allowance for improvements in quality. Thus, price indexes probably overstate the actual rise in prices, and the procedure used in deflating GNP may well understate the rise in real output. Nevertheless, useful analyses can be carried out based on GNP in constant prices, if the limitations of the data are kept in mind.

Choice of Base Years

A further problem relates to the choice of the period that should be used in establishing a meaningful long-term economic growth trend. Since growth has been marked by the ups and downs of business cycles, almost any growth rate between such limits as 1.3% and 6.5% can be documented by picking the appropriate starting and terminal years.

Much has been made recently of the fact that the average annual growth from 1953 to 1959 was only 2.4% as against 4.6% between 1947 and 1953. It has been argued that this proves that policies of monetary and budget restraint led to a serious slow-down in economic growth.

However, 1953 was a peak year in the business cycle, while 1959 was a year of recovery marked by the longest steel strike on record. Whether growth has actually slowed will be determined by the course of business in the period ahead. Full recovery to a level close to the nation's potential by late 1960 could yield a growth rate from 1953 comparable with that in the earlier postwar period, when the economy operated under the stimuli of war-bred backlogs and the Korean War.

Actually, the postwar economy has exhibited a strong tendency to move ahead along a growth trend of almost 4% per annum. Over-all production returned to that trend after the recessions of 1949 and 1953-54. If, as is possible, it does so this year and next, the postwar U.S. economy could properly be characterized as one exhibiting 4% per annum growth.

Growth Prospects

Growth prospects for the 1960's appear most favorable. Population trends point to an increase in the labor force of 2% per annum as against 1½% in the postwar period.

Industry's massive investment in research and development is a second favorable factor. The current effort in this field—an estimated $12½ billion this year—is of an entirely new dimension. Because it takes time to develop and market new products, the huge increase in research and development expenditures, which began after 1950, is just now beginning to bear fruit. Thus, the rate of technological advance could be greater in the 1960's.

Accelerating Growth

Could our economic growth be accelerated? Experience in other nations suggests that it might be possible to increase the pace of economic advance by appropriate actions. Thus, such free nations as Mexico, France, Italy, Western Germany, Canada, Japan and Venezuela outpaced the U.S. in the 1950-57 period, as did the USSR.

Significantly, most of these nations plowed back a higher proportion of gross national product into capital investment than the U.S. did. International statistical comparisons pose great problems, but there appears to be a definite relationship between the rate of investment and the rate of economic growth.

Economic growth is, of course, a most complex phenomenon. It is affected by developments in education, technology, management techniques and the attitudes of individuals. Moreover, the nation has acquiesced to a series of policies that impede growth in such fields as agriculture, transportation, taxation and work rules.

Key Role of Investment

However, the rate of investment occupies a central position in the economic growth process. The economy's postwar growth has been associated with a 15% rate of private investment, of which housing and institutional investment accounted for about one-fourth. Business investment in new plant and equipment averaged 11% of GNP. This investment supported the economy's growth trend.

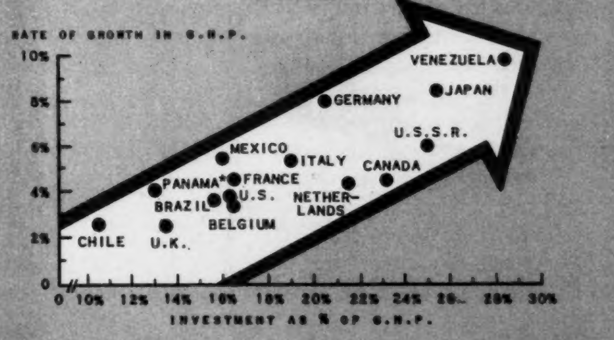
Experience shows that real growth is the result of increased investment in new and better capital goods plus development and adoption of better techniques. Thus, any realistic attempt to increase the rate of economic growth would have to include measures to increase the rate of investment. Measures to provide more realistic treatment of depreciation for tax purposes and to reduce moderately the burden placed on investment by high corporate and individual income taxes could yield most beneficient results.

In contrast, an attempt to increase the nation's rate of growth by large increases in government expenditures and easy monetary policies could prove to be abortive. Under certain circumstances, policies of calculated inflation may increase the short-term rate of growth. But in the longer run they are sure to be self-defeating—they can only produce the illusion of growth through price inflation.

The 1960's will produce many great challenges. One of the most serious will be to secure the adoption of national policies that will encourage genuine economic growth and to develop a maturity in the nation's behavior that will ensure that the potential growth in wealth is put to constructive uses. Success along these lines would enable the nation to measure up to its responsibilities to itself and to the world.

HIGH INVESTMENT AND RAPID ECONOMIC GROWTH GO HAND IN HAND

1950-1957



*1950-1956

DATA: UNITED NATIONS AND PAN-AMERICAN UNION

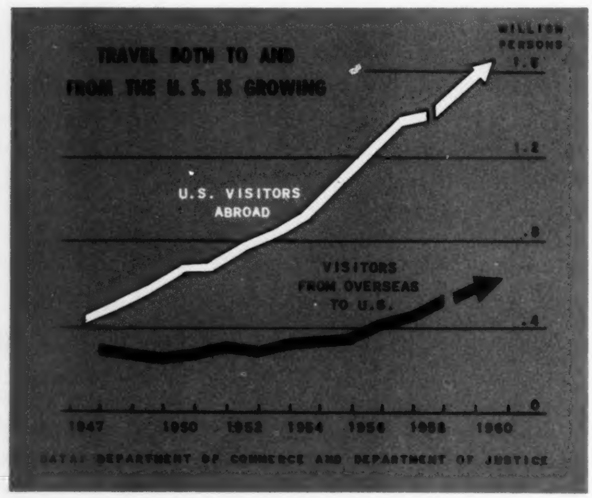
INTERNATIONAL TRAVEL

The Steady Increase in Visits Overseas

All signs point to another record year for overseas travel in 1960. Estimates of the number of U.S. residents who will go abroad for sightseeing, visiting, business or study run upwards of 1.6 million. That is well over half again as many as went in 1955 and more than double the 1953 figure.

Travel to the U.S. from abroad also will probably reach a new high; 1960 is being heavily promoted as "Visit U. S. A. Year". Thus, some 600 thousand residents of other nations are expected to cross the oceans to America. This figure has increased at about the same rate as the number of U.S. visitors overseas, although the absolute numbers are less.

In addition, Canada and Mexico are hosts to roughly 9 million Americans annually (excluding the "border crossers" who go back and forth over the line regularly to work or shop). And the same number of Canadians and Mexicans visit this country.



Universal Wanderlust

Wanderlust seems to be a nearly universal trait. A survey taken by the University of Michigan shows that 93% of all U.S. adults have a special place they want to see. For three out of five the first choice involved overseas travel; two out of five wanted most to see Europe or some part of it. France, Hawaii, Italy and Great Britain were the specific places most frequently mentioned.

This widespread desire to see other lands is behind the steady increase in the proportion of income Americans spend on international travel. From .5% of after-tax income in 1953, total expenditure on international travel has increased to \$2½ billion or nearly .7% now. This is divided: under one-third for expenditures in Canada and Mexico, one-third for overseas transportation, and over one-third for spending within overseas countries.

With the rapid and steady growth of travel, it is not surprising that many Americans have been abroad. According to the Michigan survey, one adult out of every five has been overseas at some time in his life. Many, of course, went overseas in the service. But 7% have gone as civilians. However, the astonishing fact is that the travelers have come from all income brackets—3% of those with incomes below \$3,000 have been overseas as civilians.

Trends in Travel: U.S. Abroad

In recent years, not only the growth, but also the changing pattern of U.S. overseas travel has been notable. For example, trips to different destinations have increased at markedly different rates:

- Travel to the Far East, the Pacific islands, Africa and South America has been increasing most rapidly. Trips to these areas grew by two-thirds between 1955 and 1958, and the trend is reported to be accelerating.
- The Caribbean area, which historically has attracted the largest share of U.S. overseas travel (1950-57 average 50%), had fewer visitors in 1958 than in 1957.
- Travel to Europe, which has been increasing a bit faster than average, may therefore, have moved into first place.

In addition, the means of transportation also has been undergoing substantial shifts:

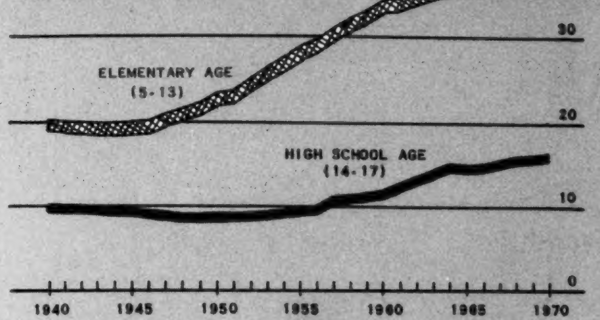
- The number of travelers going by sea has been stable at about 300 thousand. Trends have been toward cruises, vacations-on-board, and round trip sea-and-air tickets.
- The number flying has gone up from 750 thousand in 1955 to 1.1 million in 1958. The inauguration of jet service and the new economy fares are expected to draw additional business.
- Foreign-flag ships and planes have been gaining at a slightly faster rate than U.S.-flag carriers.

Visitors from Abroad

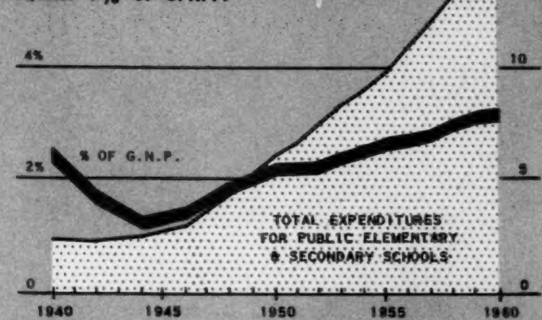
People from other countries are also acquiring travel experience in America. The number of visitors from abroad has been on a significant uptrend since the mid-1950's. Travel from Europe, Asia and Africa has increased most. Growing prosperity in other countries, lifting of currency restrictions and easier visa procedures have lent support to the rise. Thus, visitors now spend nearly \$1 billion to see the U.S. And more people in other lands are beginning to think of America as a place to vacation. A continuation of these trends toward greater travel to (and from) the U.S. should make an important contribution to international understanding.

FINANCING PUBLIC EDUCATION

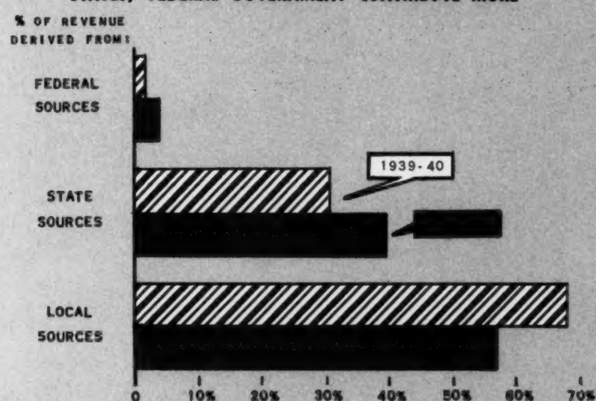
ELEMENTARY SCHOOL ENROLLMENT IS STILL GROWING, BUT HIGH SCHOOLS FACE THE BIGGER EXPANSION



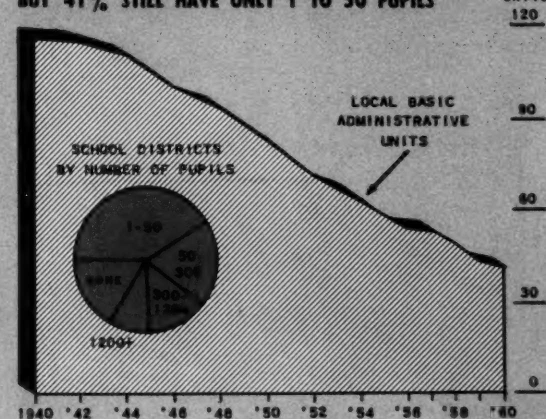
SPENDING FOR PUBLIC ELEMENTARY AND HIGH SCHOOLS, NOW AT A RECORD LEVEL, EQUALS 3% OF G.N.P.



LOCAL (PROPERTY) TAXES SUPPLY A SMALLER SHARE; STATES, FEDERAL GOVERNMENT CONTRIBUTE MORE

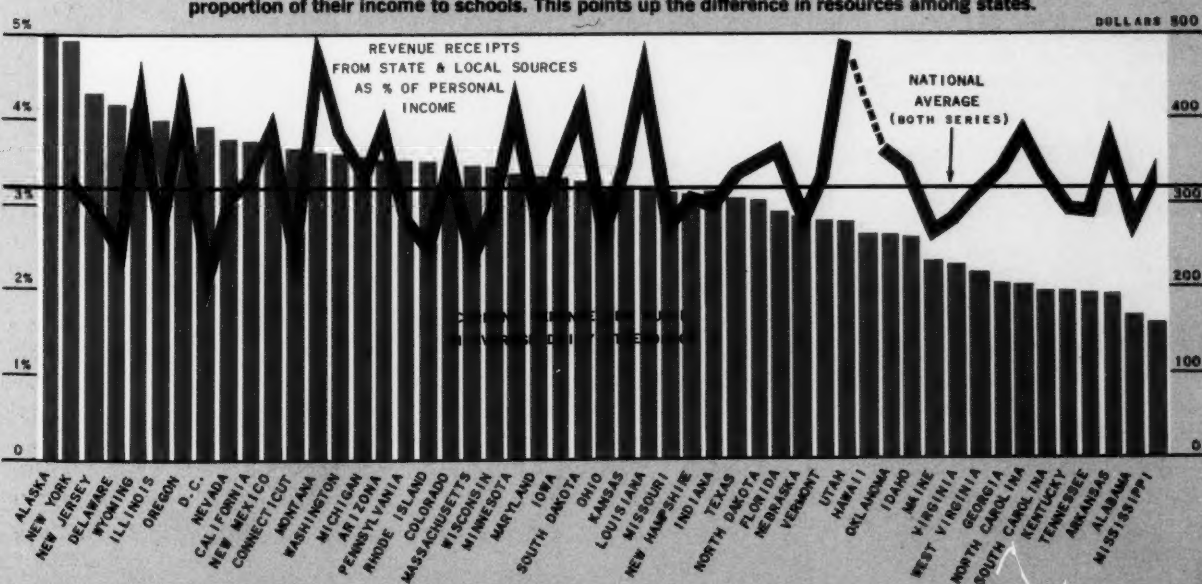


MANY SCHOOL DISTRICTS HAVE BEEN CONSOLIDATED, BUT 41% STILL HAVE ONLY 1 TO 50 PUPILS



EXPENDITURE PER PUPIL VARIES BY STATE FROM $159 TO $500

Moreover, those states with below average expenditure more often than not devote an above average proportion of their income to schools. This points up the difference in resources among states.



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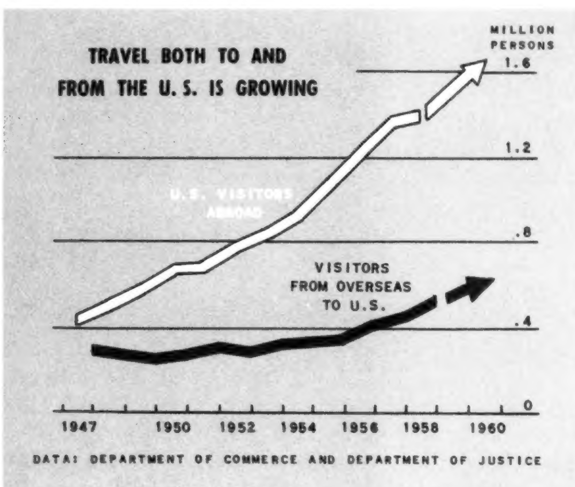

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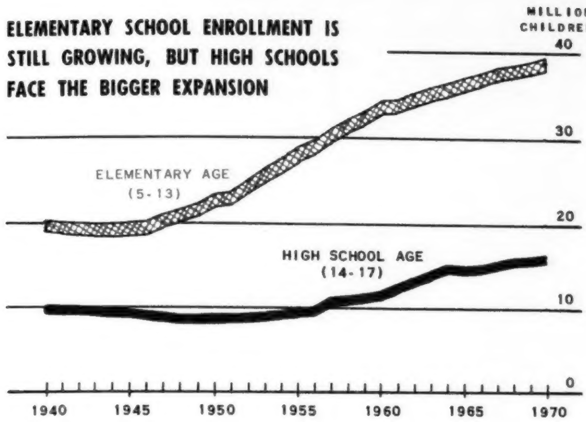

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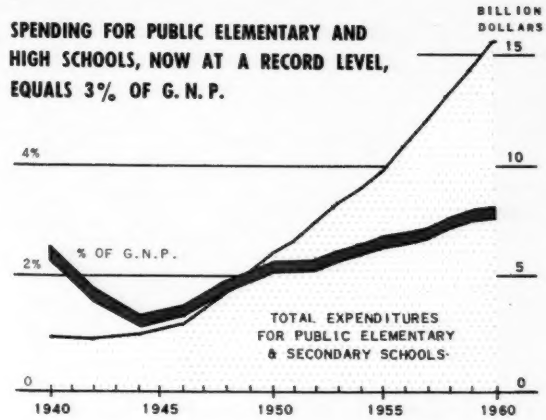

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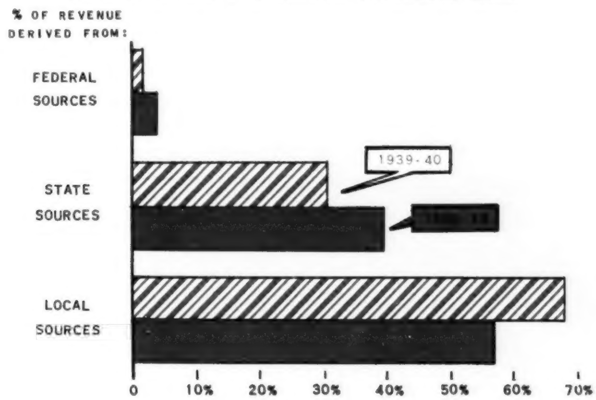

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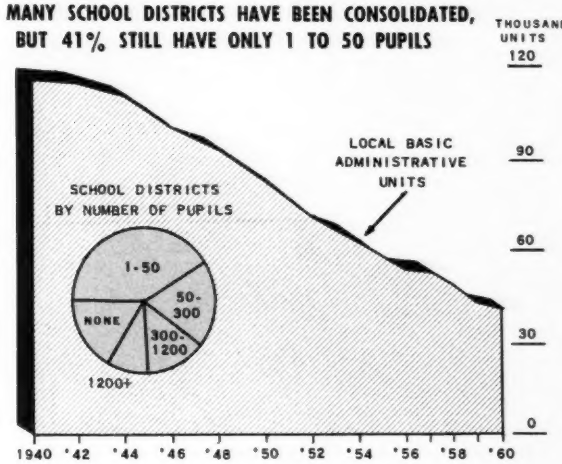

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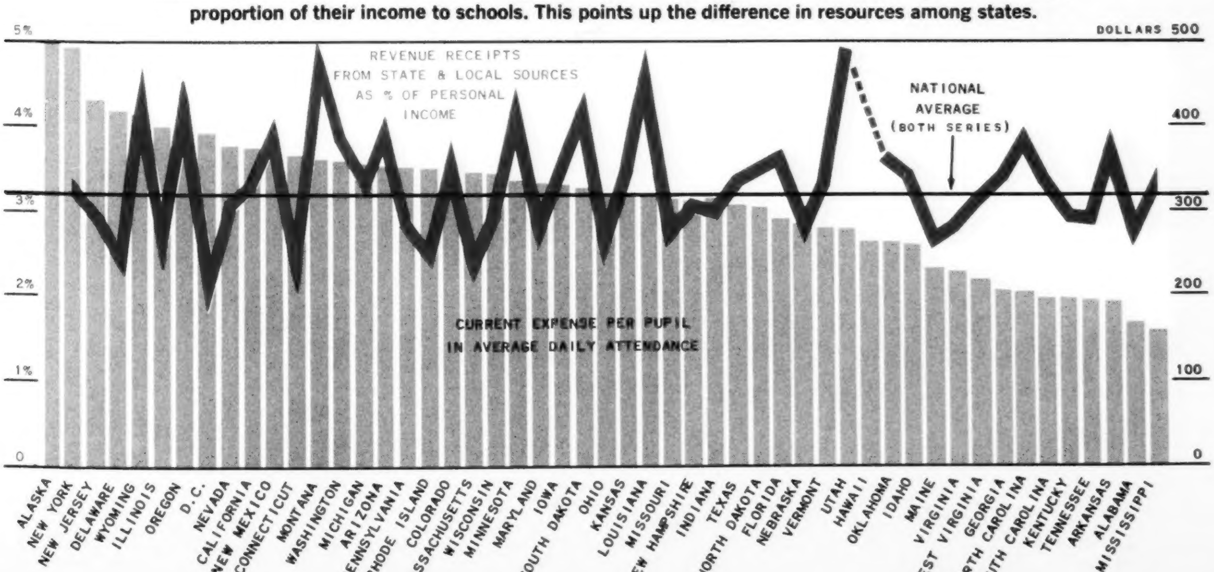

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